

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 SP-02 ICA-11 AID-05 NSC-05

TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 EA-10 INT-05 L-03 H-01 DODE-00

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USDOC FOR BEWT/TDAD (STECHSCHULTE)

E.O. 11652: N/A

TAGS: BEXP, EEWT, EIND, UR

SUBJECT: ARMCO STEEL (INTERNATIONAL) NEGOTIATING FOR
NOVOLIPETSK SILICON STEEL PLANT

1. GENERAL: ARMCO STEEL AND ITS PARTNERS-GENERAL
ELECTRIC, HITACHI, AND NIPPON STEEL HAVE WOUND UP ON
APRIL 21 FIRST WEEK OF WHAT PROMISES TO BE MULTI-WEEK
SERIES OF NEGOTIATIONS IN USCO ON NOVOLIPETSK SILICON
STEEL PLANT PROJECT. (TOTAL COST OF PROJECT WAS EARLIER
ESTIMATED TO BE \$150-250 MILLION.) FROM COMOFFS' DIS-
CUSSIONS THIS WEEK WITH ARMCO REPS, TALKS HAVE ALREADY
REACHED THE \$150 MILLION MARK AND "ARE GOING UP." AS
WE UNDERSTAND IT, ARMCO WILL SELL TO SOVIETS (THROUGH
FTO METALLURGIMPORT) ITS "BLACK BOX" TECHNOLOGY FOR
MAKING SILICON STEEL AND WILL ASSUME ROLE OF PRIME
CONTRACTOR ON PROJECT. NIPPON STEEL, WHICH HAS LICENSE
FOR ARMCO PROCESS WILL PROVIDE ENGINEERING AND EQUIPMENT,
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AND HITACHI WILL SUPPLY TANDEM ROLLING MILL. GE IS IN
FOR \$5-10 MILLION IN "ELECTRICS" (PROCESS CONTROLS,
DRIVE MECHANISMS, ETC.). AS IT NOW STANDS, JAPANESE
PARTNERS WILL OBTAIN FINANCING FOR 80 PERCENT OF PROJECT
AT COMPETITIVE RATES THROUGH JAPANESE EX-IM BANK.
PAYMENT SCHEDULE WOULD BE STRETCHED OVER SEVEN-YEARS
(TWO-YEAR GRACE PERIOD, FIVE YEAR PAYBACK).

2. PLANT DESIGN: NOVOLIPETSK STEEL PLANT WILL BE DESIGNED FOR ULTIMATE 480,000 MT OUTPUT PER ANNUM. ARMCO TRYING TO INTEREST SOVIETS IN DUAL FACILITY (WHICH WE UNDERSTAND USES IDENTICAL AND COMPLEMENTARY EQUIPMENT) FOR PRODUCTION OF BOTH GRAIN-ORIENTED AND NON-ORIENTED SILICON STEEL SHEET. AT PRESENT SOVIETS ARE TALKING IN TERMS OF NON-ORIENTED ONLY. IF SOVIETS DO OPT FOR BOTH LINES (AS BEING MORE ECONOMICAL IN LONG RUN), COST WILL PROBABLY REACH \$250 MILLION FIGURE SINCE BOTH PROCESSES -- ALTHOUGH USING SIMILAR EQUIPMENT -- ARE HIGHLY PROPRIETARY, ACCORDING TO ARMCO REP.

3. U.S. SOURCING: ARMCO'S MOSCOW REP, EDWARD PERPER (V.P.), ESTIMATES THAT U.S. PORTION OF DEAL WILL BE IN NEIGHBORHOOD OF \$50 MILLION, WHICH WOULD INCLUDE LICENSING, PROJECT MANAGEMENT, AND SUPPLIER SUB-CONTRACTS. HE EXPECTS TALKS WILL CONTINUE THROUGHOUT SUMMER AND ACCORDINGLY HAS BOOKED USCO SEMINAR ROOM FACILITY FOR ONE WEEK EACH IN MAY AND JUNE, AND TWO WEEKS EACH IN JULY AND AUGUST FOR JOINT NEGOTIATIONS WITH SOVIET FTO AND MINISTRY OF FERROUS METALLURGY OFFICIALS. (THIS IS FIRST TIME THAT ANYONE ON CURRENT USCO STAFF CAN RECALL SUCH LARGE-SCALE AND PROTRACTED NEGOTIATIONS TAKING PLACE IN USCO PREMISES.)

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4. COMMENT: ALTHOUGH CONTRACT SIGNING IS NOT YET JUST AROUND CORNER, WE BELIEVE ARMCO NOW HAS LEG UP ON ITS PRINCIPAL FRENCH COMPETITION - CREUSOT LOIRE. WITH JAPANESE FINANCING ARMCO HAS VIRTUALLY ELIMINATED MAIN OBSTACLE WHICH MOST U.S. FIRMS TRYING TO DO BUSINESS WITH SOVIETS FACE REGARDING NINE-FIGURE CONTRACTS, I.E., LACK OF GOVERNMENT-BACKED CREDIT. ADDITIONALLY, WE WONDER WHAT EFFECT, IF ANY, RECENT APPOINTMENT OF ARMCO CHAIRMAN WILLIAM VERITY AS CO-CHAIRMAN OF US/USSR TRADE AND ECONOMIC COUNCIL WILL HAVE ON EVENTUAL OUTCOME OF THESE CONTRACT TALKS. WE WILL MONITOR THIS MAJOR PROJECT CLOSELY AND REPORT SIGNIFICANT DEVELOPMENTS AS THEY OCCUR. TOON

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